

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION

MINUTES OF MEETING

Wednesday, February 16, 2011

The Board of Administration met on Wednesday, February 16, 2011 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:15 a.m. and the following members were present:

Rob Feckner, President
George Diehr, Vice President
Terry McGuire for John Chiang
Howard Schwartz for Ronald Yank
Dan Dunmoyer
Richard Costigan
JJ Jelincic
Henry Jones
Steve Coony for Bill Lockyer
Priya Mathur
Louis F. Moret
Tony Oliveira

Board of Administration Members excused: none.

AGENDA ITEM 3 – APPROVAL OF DECEMBER 2010 MEETING MINUTES

On **MOTION** by George Diehr, **SECONDED** by JJ Jelincic, and **CARRIED** that the December 15, 2010 Open Session minutes be approved as presented.

AGENDA ITEM 4 – ELECTION OF PRESIDENT AND VICE PRESIDENT FOR CALENDAR YEAR 2011

On **MOTION** by Priya Mathur, **SECONDED** by Henry Jones, and **CARRIED**, the Board re-elected Rob Feckner as President of the Board of Administration.

On **MOTION** by Priya Mathur, **SECONDED** by Henry Jones, and **CARRIED**, the Board re-elected George Diehr as Vice President of the Board of Administration.

AGENDA ITEM 5 – PRESIDENT'S REPORT

President Feckner announced and welcomed two new Board members for 2011:

- Richard Costigan, representing the State Personnel Board.
- Ronald Yank, Director, Department of Personnel Administration. Mr. Yank was represented by Howard Schwartz who was also welcomed.

President Feckner reported on the following items:

- The first of two Board off-site meetings for 2011 was held in January featuring several panel discussions and guest speakers exploring national reforms, both in pensions and in health.
- A special review to be reported on later in the meeting includes many recommendations for reform, many of which have already been adopted to promote greater ethics, transparency and accountability in the system.
- Rick Funston, Funston Advisory Group, has been retained to assist in formalizing board governance principles at the Board level.

AGENDA ITEM 6 - CHIEF EXECUTIVE OFFICER'S REPORT

Anne Stausboll congratulated President Feckner and Vice President Diehr on their reelections and welcomed the new Board members and their designees.

Ms. Stausboll reported on the following items:

- 2011 has begun on a positive note with investment returns up and vacancy rates down. With the end of furloughs in November, customer service levels are much improved.
- The PSR team recently achieved an important milestone: passing the final system test script that will allow the team to begin end-to-end testing.
- During the 2010 State Employees' Food Drive, CalPERS and colleagues at Colliers collected 49,971 pounds of food, which was 4,000 pounds over goal. CalPERS was the third largest contributor out of about 88 State agencies that participated. Ms. Stausboll thanked the staff who coordinated the Food Drive and especially co-chairs Jan Falzarano and John Hobbs for their outstanding work.
- CalPERS has been actively engaging with policymakers in the ongoing pension debate to ensure that it receives a substantive treatment based on the facts and merits as the 2011-12 state budget talks continue. Ms. Stausboll has met with both the Democratic and Republican leadership of the Senate and Assembly, as

well as chairs of several key committees that govern issues pertinent to CalPERS and its members.

- Alan Milligan, Chief Actuary and Ms. Stausboll made a presentation last week at the Assembly Democratic Policy Retreat, and are scheduled to provide testimony at a joint legislative hearing in early March.
- Public pensions continue to be a hot topic at the national level as well. Ms. Stausboll will be visiting Washington, DC in March and plans to meet with industry groups and policy makers.
- CalPERS is preparing a national policy statement on retirement security that will be presented at the April Board for review and discussion.
- In January, Ms. Stausboll convened a roundtable at CalPERS of about ten CEOs of mid-size and large-size pension funds to discuss possible collaboration on shared objectives.

Ms. Stausboll recognized the efforts of Nancy Quinlan and the staff of the Strategic Management Services Division who recently completed a project to align the tasks of business planning, budgeting, and performance objectives.

AGENDA ITEM 7 - CHIEF INVESTMENT OFFICER'S REPORT

Joe Dear, Chief Investment Officer (CIO), presented the CIO report to the Board. Items included:

- As of December 31, 2010 the Total Fund was approximately \$225.7 billion.
- For the one year period ended December 31, 2010, the net rate of return was approximately 12.46%.
- For the fiscal year-to-date period ended December 31, 2010, the net rate of return was 13.96%.
- Mr. Dear announced the planned departure of two senior portfolio managers in the Alternative Investments Management (AIM) Program, Joncarlo Mark and Michael Dutton.

AGENDA ITEM 8 – INVESTMENT COMMITTEE

George Diehr, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, February 14, 2011.

Additional information may be found in the February 14, 2011 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for March 14, 2011 in Sacramento, California.

AGENDA ITEM 9 - AD HOC RISK MANAGEMENT COMMITTEE

Tony Oliveira, Chair, Ad Hoc Risk Management Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, February 15, 2011.

Additional information may be found in the February 15, 2011 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Ad Hoc Risk Management Committee is scheduled for April 11, 2011 in Sacramento, California.

AGENDA ITEM 10 - BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

George Diehr, Vice President, presented the Benefits and Program Administration Committee Summary report to the Board. The Committee met on Tuesday, February 15, 2011.

Additional information may be found in the February 15, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Approval of the Notice of Election and Schedule of Events for the 2011 Retired Member Election.
- Approval of the 2010 Cost-of-Living Report and moving for adoption by the Board with instructions to file the Report with the Governor and the Legislature.

The next meeting of the Benefits and Program Administration Committee is scheduled for March 15, 2011 in Sacramento, California.

AGENDA ITEM 11 – HEALTH BENEFITS COMMITTEE

Priya Mathur, Chair, Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, February 15, 2011.

Additional information may be found in the February 15, 2011 Agenda materials and transcripts of the Committee meeting.

Prior to the following vote, Kathleen Billingsley, Assistant Executive Officer, Health Benefits, read the following statement:

"At the Health Benefits Committee meeting on February 15, 2011, Dr. Diehr asked a question about the proposed regulations in Agenda Item 3b. Dr. Diehr's question

involved the application of the 30 day notice requirement for rescission of health coverage under the proposed amendment to the regulation.

I would like to provide some clarification to the response staff gave to Dr. Diehr's question yesterday.

This regulation would prohibit retroactive cancelations of health coverage when an employee loses health coverage because of time- or hour-based changes <u>unless</u> the health coverage itself was based on misrepresentation or fraud.

When the subscriber/employee's coverage resulted from misrepresentation or fraud, then the employer may cancel the coverage <u>retroactively</u>, <u>but</u> must give the subscriber/employee 30-days notice.

Staff believes the text of the proposed amendment (section 599.506(f) accurately states the rule on retroactive cancellation and is consistent with federal Health Care Reform regulations."

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

 Approval of the proposed regulations, as attached to the Committee Meeting Summary, to conform State Regulations to federal health care reform provisions that prohibit rescissions of coverage in specific circumstances.

The next meeting of the Health Benefits Committee is scheduled for March 15, 2011 in Sacramento, California.

Public Comment

A member of the public was present, Richard Ross, CalPERS member, who expressed concerns with the criteria used by Blue Cross/Blue Shield to select specialty practitioners. Mr. Ross suggested CalPERS Health Committee oversight and was assured the Committee is concerned about quality.

AGENDA ITEM 12 – FINANCE COMMITTEE

Henry Jones, Chair, Finance Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, February 15, 2011.

Additional information may be found in the February 15, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

 Acceptance of the 2010 Draft Management Letter, as prepared by Macias Gini & O'Connell LLP for the fiscal year ended June 30, 2010.

- Sponsorship of legislation to allow CalPERS to assess a reasonable amount on employers to recover additional costs incurred for time which exceeds the estimated time to complete an audit.
- Approval of the following Contingency Reserve Fund Fiscal Year (FY) 2010-11 adjustments:
 - 1. The Committee accepts a net decrease to the Contingency Reserve Fund (CRF) of \$717,000 in the FY 2010-11 for a total CRF budget of \$25,904,000 and recommends the Board of Administration (Board) approve this revised budget.
 - 2. The Committee accepts an increase to the Public Employees' Retirement Fund (PERF) of \$717,000 in the FY 2010-11 for a total PERF budget of \$265,423,000 and recommends the Board approve this revised budget.
 - 3. The Committee accepts the proposed CalPERS FY 2010-11 cost allocation adjustment to the CRF and PERF, and recommends the Board approve the cost allocation.
 - 4. The Committee recommends the Board approve the transmittal of this agenda item to the Joint Legislative Budget Committee and the Fiscal Committees of the Legislature, the State Controller, and the Department of Finance, in accordance with the Budget Act of 2010 (Budget Act), and to the Legislative Analyst's Office and the State and Consumer Services Agency.
- Approval of the revised target date for Enterprise Priority 3, Objective 2, to June 2011 per staff's recommendation.

The next meeting of the Finance Committee is scheduled for March 15, 2011 in Sacramento, California.

AGENDA ITEM 13 - AD HOC BOARD GOVERNANCE COMMITTEE

The Committee did not meet in February.

AGENDA ITEM 14 – PERFORMANCE AND COMPENSATION COMMITTEE

Dan Dunmoyer, Vice Chair, Performance and Compensation Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, February 15. 2011.

Additional information may be found in the February 14, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED** with one "nay" vote by JJ Jelincic, the Board approved the following:

- Approval of the 2010-11 combined First and Second Quarter status reports for the Chief Executive Officer, Chief Actuary, General Counsel, Chief Investment Officer and his direct reporting staff.
- Approval of the proposed Quantitative change to the performance plan of the Senior Investment Officer, Fixed Income; and the Qualitative change to the Leadership measure for all Investment Managers.

The next meeting of the Performance and Compensation Committee is scheduled for March 14, 2011 in Sacramento, California.

AGENDA ITEM 15 – BOARD MEETING CALENDAR

No changes were made to the Calendar. President Feckner noted that the location of the October Board meeting has been changed to Sacramento instead of out of town.

AGENDA ITEM 16 - PENSION SYSTEM RESUMPTION (PSR) PROJECT UPDATE

Dale Jablonsky, Assistant Executive Officer, Information Technology Division, introduced Karen Ruiz, PSR Project Manager, who presented status reports on the PSR and Enterprise Transition Management (ETM) Projects.

- The Project team closed out all of the work associated with the system testing phase in January and is now focused on end-to-end testing, preparing for customer acceptance testing, and going live on September 19. 2011.
- Completion of end-to-end testing is expected by mid-April.
- In mid-January, the team began acceptance testing of the on-line application for Americans with Disabilities Act (ADA) compliance.
- The team has completed the Financial Systems Integration Project (FSIP) and will begin FSIP acceptance testing at month's end.
- At the March Board meeting, a full update will be given on the plan for communications with members, internal staff and business partners to occur before, during and after the two-week cutover in September.
- Training for CalPERS business partners will begin in June.

John Nichols, Project Manager, Accenture, reported on the following:

 Important milestones achieved were the completion of system testing and the financial system integration test. Accenture looks forward to achieving increased productivity and throughput during the latter part of February and into March and will try to mitigate and contain the slippage into April to the highest degree possible.

Chris Jasper, KPMG, Project Oversight, generally concurred with the project status report but remained concerned about the late start of end-to-end testing and the pace at which it is now progressing. He was encouraged by the early start of some customer assistance testing.

AGENDA ITEM 17 – ORGANIZATIONAL STRUCTURE AND PROCESS INITIATIVE UPDATE

Donna Lum, Assistant Executive Officer, Member and Benefit Services Branch, provided an update on the Organizational Structure and Processes Initiative and reported on the following:

- A unified call center will provide one voice for CalPERS and allow members and employers to get their information from a single source.
- Education and outreach is being centralized to achieve consistency and uniformity of the guidelines and information used to educate members, employers and internal staff.
- In the Account Management Group, contracting and enrollment processes across both the retirement and health account management will share best practices and cross-train teams.
- Partial implementation of the new organizational structure has already begun.

AGENDA ITEM 18 – EXTERNAL AFFAIRS UPDATE

Patricia Macht, Director, External Affairs, provided an update on External Affairs and reported on the following:

- A recent study issued in February by the Center for Economic Policy Research indicates that the major cause of pension shortfalls has not been inadequate contributions but rather the stock market plunge. The positive note of this report is representative of a number of studies now coming out that counter the conclusions of the Stanford and similar studies.
- A lot of work is ongoing throughout the state between unions and employers to determine the best solutions for them. CalPERS Actuarial Employer Services Branch has been working with local employers and employee organizations to price-out changes.

AGENDA ITEM 19 – BOARD'S STATE LEGISLATIVE PROGRAM/BOARD'S POSITION ON STATE LEGISLATION

Danny Brown, Chief, Governmental Affairs, provided an update on State Legislation and CalPERS sponsored bills and reported on the following.

- Senator Negrete-McLeod has agreed to carry the legislation for CalPERS 1959 survivor benefit for public agencies that merges those first three pools.
- Assembly Member Julia Brownley will carry the audit bill that the CalPERS Board approved today.
- Senator Hernandez has agreed to author clarifying amendments to the placement agent bill to avoid the inclusion of certain broker/dealers that were never intended to be part of the definition of "placement agent".
- The Assembly Democrats held their policy summit last week, as did the Assembly and Senate Republicans, to talk about pensions.
- On Thursday the Legislative Analyst's Office (LAO) issued a video covering some of the options they recommended for pension reform for new State and local employees. Some ideas included cost sharing between employer and employee as markets fluctuate up or down, and a Defined Benefit 401(k) hybrid plan.
- AB 35 (Perea) is a tax conforming bill for dependent care coverage up to age 26, and is expected to pass and be signed by the Governor before April 15, 2011.

AGENDA ITEM 20 – BOARD'S FEDERAL LEGISLATIVE PROGRAM/BOARD'S POSITION ON FEDERAL LEGISLATION

Tom Lussier, CalPERS Federal Liaison provided updates on federal legislation and reported on the following:

- Congressman Nunes has refiled his Public Employee Pension Transparency Act.
- CalPERS continues to work with pension industry groups as well as the public employer community to present objections to federal intervention into the management and accountability of public pension plans.
- CalPERS recently supported a Senate hearing for staff on committees that would have jurisdiction over pension issues. Additional outreach is being conducted with key House staff and individual congressional offices.
- Two recent subcommittee hearings in the House looked at the impact of the costs of public pension liabilities on potential bankruptcy in state and local government.

- CalPERS has submitted a letter signed by Anne Stausboll to Congressman Gallegly, the only member from California who sits on the subcommittee of the Judiciary Committee. The letter corrects the record of some of the studies as it relates to CalPERS data. It has been distributed to every other member of the California delegation that serves on the Judiciary Committee.
- Congressman Stark has asked CalPERS to submit written testimony to the House Ways and Means Committee that was holding a hearing on the Affordable Care Act. This letter was similar to the one sent to the Department of Health and Human Services (DHHS) in December outlining CalPERS early successes in implementing the Affordable Care Act.
- Anne Boynton, DEO, Benefits Administration and Kathleen Billingsley, AEO, Health Benefits, along with Chris Jennings and Tom Lussier, recently met with high level individuals from the DHHS and from the White House Office of Health Reform to discuss the President's pending National Patient Safety Initiative.
- The National Coalition on Health Care (NCHC) is continuing to do good work around the topic of additional cost containment.
- CalPERS will continue to support the agencies that will be responsible for making the Dodd-Frank Act a reality.

Ms. Holton-Hodson replaced Terry McGuire at this time.

AGENDA ITEM 21 - PUBLIC AFFAIRS UPDATE

Brad Pacheco, Division Chief, Public Affairs, provided an update on Public Affairs.

- A summary report was provided of the many actions of CalPERS over the last two years to address ethics, transparency and accountability as well as investment risk and fees. Also outlined in the report are accomplishments in health care, CalPERS operations and new risk management functions, efforts to educate local public officials around pensions, and steps for the future.
- The CalPERS Pension Buck has been updated and distributed.
- A fact sheet around the COLA changes was also provided.

AGENDA ITEM 22 - SPECIAL REVIEW RECOMMENDATIONS AND IMPLEMENTATION PLAN

Peter Mixon, General Counsel, presented the implementation plan and recommendations made by the Special Review in December. A matrix was provided showing each recommendation, a summary and proposed next steps. Steps that have already occurred were summarized in the narrative portion of the Agenda item.

Recommendations included:

- 1. Placement agent disclosures already implemented
- 2. Prohibition of placement agent fees already implemented
- 3. Institutional Risk Management
- 4. Internal audit reports
- 5. Public Records Act requests
- 6. Placement Agent Resolution Program
- 7. Management fees
- 8. Modification of the Investment Office function
- 9. Advisory Board/ annual meeting expenses
- 10. Modification of Civil Service rules
- 11. Gifts and Travel Policy
- 12. Revolving Door Prohibitions

The Board of Administration Open Session recessed at 12:30 P.M. and reconvened at 12:40 P.M.

Ms. Holton-Hodson presented the State Controller's Office proposal on gift limits. The Controller will be proposing legislation and requested that CalPERS co-sponsor the bill.

Public Comment

- Katie Fleming, Policy Advocate, California Common Cause, encouraged adoption of a stringent gift policy, and revolving door reforms.
- Randall Cheek, Service Employees International Union (SEIU) Local 1000, read a prepared statement and referred to a letter he submitted in support of Controller Chiang's proposed reforms.
- Neal Johnson, SEIU Local 1000, spoke in support of Controller Chiang's proposal.
- Marguerite Young, SEIU Capital Stewardship Program, spoke in support of Controller Chiang's proposal.

 Janus Norman, American Federation of State, County, and Municipal Employees (AFSCME) distributed to Board members a publication on AFSCME's best practices recommendations and findings.

General Counsel Mixon noted before the following vote that the Special Review has reviewed each proposed next step and endorses them.

On **MOTION** by Priya Mathur, **SECONDED** by Tony Oliveira and **CARRIED** with one abstention by JJ Jelincic, the Board approved authorizing Staff to move forward with the next steps on items 1 through 9 of the Special Review, and to continue to explore options for the remainder of the items.

AGENDA ITEM 23 - BOARD TRAVEL APPROVALS

On **MOTION** by Tony Oliveira, **SECONDED** by Henry Jones and **CARRIED**, the Board approved the Board travel.

AGENDA ITEM 24 - DRAFT AGENDA FOR March 16, 2011 MEETING

No comments.

Terry McGuire replaced Ruth Holton-Hodson at this time.

AGENDA ITEM 25 – GENERAL COUNSEL'S REPORT

Peter Mixon, General Counsel, reported on the monthly new case report and assignment matrix.

AGENDA ITEM 26 - PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

Peter Mixon, General Counsel, reported on proposed decisions of Administrative Law Judges, cases 26A through 26L.

On **MOTION** by JJ Jelincic, **SECONDED** by Priya Mathur and **CARRIED**, the Board approved adopting as its own the proposed decisions of Administrative Law Judges for 26A through 26M, excluding 26L.

On **MOTION** by Henry Jones, **SECONDED** by JJ Jelincic and **CARRIED**, the Board approved rejecting the proposed decision of the Administrative Law Judge for 26L and remanding it for a rehearing.

AGENDA ITEM 27 – PETITIONS FOR RECONSIDERATION

On **MOTION** by Priya Mathur, **SECONDED** by JJ Jelincic and **CARRIED**, the Board approved rejecting the Petitions for Reconsideration for 27A and 27B.

AGENDA ITEM 28 - PUBLIC COMMENT

No public comment.

There being nothing further to come before the Board of Administration, the meeting adjourned at 1:29 p.m.

The next Board of Administration meeting is scheduled for March 16, 2011 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer